

A woman shops at a Walmart store in Los Angeles. Falling gasoline prices have left more cash in consumers' pockets, fueling a rise in spending.

PATRICK T. FALLON, BLOOMBERG

11/26/14

STRONGER ECONOMY NOT WOWING CONSUMERS

Spending up, but confidence declines amid lag in housing

Paul Davidson
USA TODAY

A batch of reports Tuesday highlighted an economy whose foundation — consumer and business spending — looks solid while pillars such as housing are firming more slowly.

The U.S. economy grew at a 3.9% annual rate in the third quarter, more rapidly than the 3.5% first estimated, the Commerce Department said.

The economy has notched its best six months of growth since 2003, including a 4.6% annualized rate of expansion in the second quarter, after a first-quarter contraction caused largely by severe winter weather.

Tumbling gasoline prices have left Americans more discretionary cash, boosting consumer spending by 2.2%, in the three months ended Sept. 30, vs. the 1.8% first estimated and boding well for the holiday sales season.

A 7.1% rise in business investment was also stronger than initially believed as factories bought new machines to expand capacity stretched near its limits.

Other factors in the upward revision, such as a surge in defense spending and business stockpiling that slowed less than initially estimated, are unlikely to be repeated.

Reversals in those areas could hinder growth in the current quarter.

Exports increased more slowly than previously believed, reflecting a stronger dollar that's likely to temper economic growth next year, said Michael Gapen, chief U.S. economist at Barclays Capital.

Still, the economy generally is benefiting from the ability of consumers and businesses to shed debt since the recession ended in 2009, clearing a path for higher spending. Federal, state and local governments also are on better financial footing, causing their aggregate spending to grow solidly in the third quarter after dipping the previous quarter.

Economists expect growth to slow this quarter but pick up next year as stronger wage growth and low gasoline prices drive consumer spending.

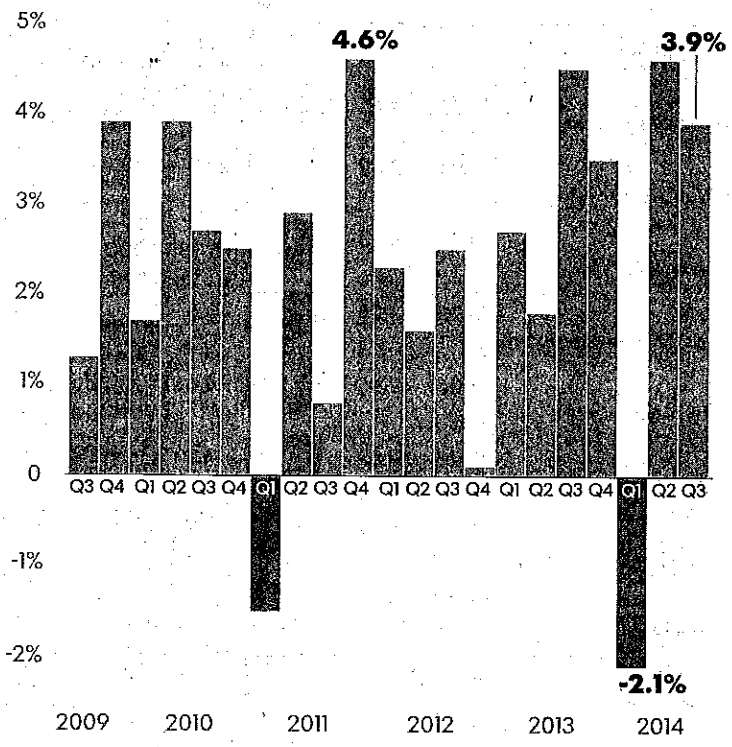
"The U.S. recovery is firmly on track," James Marple, senior economist at TD Economics, wrote in a note to clients.

An index of consumer confidence fell this month, the Conference Board said, despite the falling gas prices and a roaring stock market. But several economists noted the measure is still near highs for the recovery and will likely rise further in coming months.

The housing market remains stuck in a slower lane. The S&P/Case-Shiller 20-city index of home prices for September rose 4.9% from a year ago, the smallest year-over-year gain in almost two years. Prices have been decelerating after increasing sharply last year. Tight credit continues to hamper a brisker bounce-back in housing sales and starts.

Reports slated to be released today are likely to amplify the pattern, economists predict, with personal income and spending rising solidly and business equipment orders advancing modestly. New-home sales, which are up just 1.7% this year, are estimated to have risen just slightly in October.

Percentage change in U.S. gross domestic product from previous quarter, seasonally adjusted at annual rates, since start of economic recovery:



Source Bureau of Economic Analysis

GEORGE PETRAS, USA TODAY